

Message Text

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AMEMBASSY ATHENS

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TAGS: PFOR CY TU EALR ECON

SUBJECT: TURK CYPRIOT ECONOMY

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1. OUR LAST GENERAL REPORT ON ECONOMIC DEVELOPMENTS IN TURKISH-CONTROLLED NORTHERN CYPRUS CHARACTERIZED THE ECONOMY AS FLOUNDERING BUT AFLOAT (REFTEL). TODAY, EIGHT MONTHS LATER, THE ECONOMY IN THE NORTH IS NOT ONLY AFLOAT, BUT ON COURSE -- ALBEIT AT A MODEST PACE -- TOWARD ECONOMIC STABILIZATION, NEARLY COMPLETE ECONOMIC INDEPENDENCE FROM THE GREEK CYPRIOT ECONOMY, AND A MORE CONFIDENT FUTURE WITHIN TURKEY'S ECONOMIC ORBIT. IN SUM, THE TURK CYPRIOT ECONOMY TODAY IS MARKED BY: (1) UNEVEN BUT STEADY IMPROVEMENT; (2) CONTINUING FINANCIAL, TRADE AND TECHNICAL DEPENDENCE ON TURKEY; (3) CONTINUING PROBLEMS ARISING OUT OF POST-WAR UNCERTAINTIES AND POPULATION DISPLACEMENTS AND SHORTAGES OF LABOR, KNOW-HOW, MANAGEMENT SKILLS, AND FOREIGN EXCHANGE.

2. STABILIZATION OF THE NORTH IS EVERYWHERE EVIDENT. THE "STATE OF EMERGENCY" PREVAILING SINCE HOSTILITIES WAS FORMALLY LIFTED JULY 13. TURK CYPRIOT TELEVISION WAS INAUGURATED JULY 19. LIFT SEEMS MORE "NORMAL" AND CONSUMERS LESS HARRASSED. THE PERIODIC AND SOMETIMES PROLONGED SHORTAGES OF EVERYDAY GOODS WHICH PLAGUED THE ECONOMY IN THE YEAR AND A HALF FOLLOWING THE 1974 HOSTILITIES ARE FAR LESS FREQUENT. SMUGGLING FROM THE SOUTH HAS NEARLY BEEN ELIMINATED, THANKS LARGELY TO BANKING REGULATIONS ADOPTED IN JUNE WHICH (BY PERMITTING BANK WITHDRAWALS IN TURKISH LIRA ONLY) HAVE EFFECTIVELY REMOVED THE CYPRUS POUND FROM CIRCULATION IN THE NORTH. FOOD PRICES, WHICH SHOT UP ASTRONOMICALLY LAST YEAR, ARE NOW UNDER CONTROL AND IN MOST CASES FALLING, AS PRODUCTION CATCHES UP WITH DEMAND. PRICE OF TOMATOES, TO TAKE MOST DRAMATIC EXAMPLE, HAS PLUMMETED FROM 22 SHILLINGS (\$2.67) TO 2-3 SHILLINGS PER OKE (2.8 POUNDS) IN PAST SEVERAL MONTHS.

3. INFRASTRUCTURE: GAINS ARE ALSO APPARENT IN THE NORTH'S ECONOMIC INFRASTRUCTURE. TRUNK ROADS HAVE BEEN IMPROVED, REPAIRED, AND EXPANDED; AND THE FINAL STRETCH OF A FAMAGUSTA-NICOSIA-MORPHOU IS NOW UNDER CONSTRUCTION. AN AUTOMATIC TELEPHONE SYSTEM BEGAN OPERATING APRIL 30, REPLACING ANTEDILUVIAN SYSTEM WHICH OFTEN REQUIRED THREE HOURS TO PLACE CALL FROM NICOSIA TO KYRENIA (13 MILES AWAY) AND WHICH MADE EFFICIENT BUSINESS DEALINGS IMPORRIBLE. TELEX SYSTEM HAS ALSO BEEN HOOKED UP WITH MAINLAND (ALTHOUGH BUSINESSMEN CLAIM THAT DELAYS LIMITED OFFICIAL USE

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AND UNRELIABILITY OF MAINLAND RELAYS TO EUROPE ARE CAUSING PROBLEMS FOR FRESH FOOD EXPORTS). ERCAN AIRPORT RUNWAY EXTENSION PROJECT WAS COMPLETED IN JUNE, SO THAT COMMERCIAL AIRCRAFT OF ANY SIZE CAN NOW BE ACCOMMODATED, AND NEW TERMINAL CONSTRUCTION IS WELL UNDERWAY. NUMBER OF FLIGHTS TO AND FROM MAINLAND HAS BEEN INCREASED FROM 20 TO 26 PER WEEK AND THERE IS NOW FLIGHT TO LONDON WITH BRIEF STOP-OVER IN ISTANBUL SIX TIMES A WEEK. NUMBER OF SHIPS REACHING TURKISH-CONTROLLED FAMA-

GUSTA HAS INCREASED BUT DIFFICULTIES REMAIN AND PROLONGED DELAYS IN SHIPPING AND RECEIVING GOODS ARE COMMON. FINALLY, STAND-BY GAS TURBINE POWER STATION WITH REPORTED 35 MEGAWATT GENERATING CAPACITY NEAR DIKOMO HAS NEARLY BEEN COMPLETED AND ANOTHER 100 MW STEAM TURBINE STATION IS REPORTEDLY UNDER CONSIDERATION.

4. AGRICULTURE: AGRICULTURAL PICTURE HAS CONTINUED TO IMPROVE, AS POLITICAL UNCERTAINTY RECEDES, RESETTLED FARMERS GAIN EXPERIENCE IN GROWING NEW CROPS, EXPORT MARKETS ARE DEVELOPED, AND THERE IS NEW WILLINGNESS TO MAKE SMALL CAPITAL IMPROVEMENTS WITH LOW-INTEREST LOAN FROM "TFSC".

A. CLEAREST INDICATIONS OF PROGRESS ARE THE RISE IN AGRICULTURAL EXPORTS AND THE PLENTIFUL AND CHEAP FRESH GOODS IN THE MARKET COMPARED TO LAST YEAR'S SHORTAGES AND HIGH PRICES. WHEAT AND BARLEY PRODUCTION HAVE ALSO IMPROVED: WHEREAS LAST YEAR 10,000 TONS OF BARLEY AND 3,000 TONS OF WHEAT HAD TO BE IMPORTED TO MEET INTERNAL NEEDS, THIS YEAR SOIL PRODUCTS OFFICE PROJECTS 17,000 TON WHEAT SURPLUS AND 4,000 TON BARLEY SURPLUS. ACCORDING "TFSC COMMERCE MINISTRY." POTATO PRODUCTION INCREASED FROM 3-4,000 TONS IN 1975 SEASON TO ROUGHLY 15,000 TONS IN 1976. POTATO EXPORTS INCREASED FROM 1,000 TO 7,700 TONS AND EXPORT EARNINGS FROM \$175,000 TO \$1.4 MILLION DURING SAME PERIOD. (26,000 TON CROP HAD BEEN PROJECTED BUT MUCH OF IT WAS LOST DUE TO INEXPERIENCE WITH INSECTICIDES AND HARVESTING TECHNIQUES.) CITRUS EXPORTS AND PRODUCTION FELL 30 PERCENT SHORT OF "TFSC" ESTIMATES BUT ROSE FROM ROUGHLY 26,000 TONS IN 1975 TO 48,000 TONS IN 1976, PRODUCING \$6.4 MILLION IN FOREIGN EXCHANGE (UP FROM \$3.5 MILLION LAST YEAR). CARROT EXPORTS, ON THE OTHER HAND, ACHIEVED ONLY 15 PERCENT OF 1976 ESTIMATES (300 TONS AND A MEAGER \$23,000 IN FOREIGN EXCHANGE.)

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R 191330Z AUG 76

FM AMEMBASSY NICOSIA

TO SECSTATE WASHDC 4176

INFO AMEMBASSY ANKARA

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B. WATER REMAINS A SERIOUS AND LONG-TERM PROBLEM FOR AGRICULTURE, AND PARTICULARLY FOR THE IMPORTANT CITRUS EXPORT CROP. THE WATER TABLE IS LOW, AQUIFIERS ARE DRYING UP IN MORPHOU AND FAMAGUSTA REGIONS, AND "FTSC" AUTHORITIES HAVE BEEN FORCED TO LIMITED OFFICIAL USE

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IRRIGATE ONLY BEST CITRUS GROVES AND LET OTHERS WITHER. THIS IS PARTICULARLY STRIKING IN FAMAGUSTA, WHERE VISUAL IMPRESSION IS THAT DEAD OR DYING GROVES OUTNUMBER PRODUCTIVE ONES. TO COPE WITH PROBLEM, "TFSC" IS EXPLORING FEASIBILITY OF BRINGING WATER TO THE NORTH FROM MAINLAND (GOKSU RIVER) EITHER BY TANKER OR BY SUBMARINE PIPELINE. FRENCH FIRM HAS JUST BEEN AWARDED PRE-FEASIBILITY STUDY CONTRACT, RESULTS OF WHICH SHOULD BE AVAILABLE IN EARLY 1977.

5. INDUSTRY: INDUSTRIAL PRODUCTION AND REACTIVATION REMAIN ONE OF WEAKEST POINTS IN NORTH'S ECONOMY. GIVEN BUSINESS AND MANAGEMENT INEXPERIENCE, LACK OF TECHNICAL KNOW-HOW, SMALL DOMESTIC MARKET, DIFFICULTY OF BREAKING INTO FOREIGN MARKETS, AND SHORTAGE OF SKILLED LABOR, INDUSTRY IN NORTH SEEMS LIKELY TO REMAIN STAGNANT AND UNDERUTILIZED FOR NEXT SEVERAL MONTHS. ACCORDING TO PRESS REPORTS (SINCE OFFICIAL INFORMATION ON INDUSTRIAL UNITS IN OPERATION, LET ALONG PRODUCTION, IS NOT AVAILABLE), SOME 225 "FACTORIES" ABANDONED BY GREEKS HAVE BEEN

REACTIVATED. ONLY 95 OF THESE, HOWEVER, CAN BE CONSIDERED "FACTORIES" (THE OTHERS BEING SMALL WORKSHOPS) AND MOST OF THE 95 ARE SMALL OPERATIONS. FORTH OF THE FACTORIES ARE RUN BY THE NOTORIOUSLY INEPT, STATE-CONTROLLED INDUSTRIAL HOLDING COMPANY (IHB); 20 BY PRIVATE ENTREPRENEURS ON LEASE FROM IHC; 14 BY CYPFRUVEX, A STATE-CONTROLLED AGRICULTURAL EXPORT FIRM; AND 21 BY EVKAF, TURKISH RELIGIOUS FOUNDATION. PRESS REPORTS ALSO INDICATE THAT OF THE MORE IMPORTANT MANUFACTURING CONCERNS, 7 INVOLVE PROCESSED FOODS AND DRINK, 8 CLOTHING, 11 PLASTICS, 10 METAL WORK, 4 FURNITURE, 6 TILE.

6. TOURISM: TOURISM IN THE NORTH IS STILL HAMPERED BY A SHORT-AGE OF TRAINED PERSONNEL, POLITICAL UNCERTAINTY, RELATIVELY POOR TRANSPORTATION LINKS WITH WUROPE, AND (TURKS CLAIM) GREEK PRESSURES ON TRAVEL AGENTS NOT TO BOOK TOURS TO THE NORTH. TOURISM OFFICIALS MAINTAIN THAT NUMBER OF TOURISTS IS NOW RUNNING WELL AHEAD OF LAST YEAR, WHEN 80,500 WERE RECORDED, THAT JANUARY-JUNE FIGURE TOTALLED 48,500 AND THAT 95 PERCENT OF TOURISTS WEERE FROM TURKEY. THIS FIGURE MAY BE SOMEWHAT SUSPECT, HOWEVER, GIVEN FREQUENT COMMENTS BY TURK CYPRIOTS AND HOTELIERS IN THE NORTH THAT TOURISM IS DOWN, "LAST YEAR WAS BETTER," NOVELTY FOR MAINLANDER OF VISITING NEWLY "LIBERATED" NORTH IS WEARING OFF. WHATVER THE CASE, LOCAL TURK CYPRIOT USE OF HOTEL LIMITED OFFICIAL USE

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RESTAURANTS AND BEACHES HAS HELPED TO LIVEN THINGS UP A BIT, THOUGH NOT ENOUGH TO REMOVE DOMINANT IMPRESSION OF EMPTINESS, UNDERUTILIZATION, AND INACTIVITY.

7. FOREIGN TRADE: AS WITH SO MANY MATTERS HERE, OFFICIAL FIGURES ON THE ECONOMY AND FOREIGN TRADE ARE INCOMPLETE, UNAVAILABLE, OR CLOSELY HELD. PRESS, HOWEVER, HAS REPORTED THAT EXPORTS TOTALLED 4,142,575 CYPRUS POUNDS IN 1975 (1 POUND EQUALS \$2.40) AND WERE DISTRIBUTED AS FOLLOWS: TURKEY 43.5 PERCENT, UK 33.4 PERCENT, NETHERLANDS 11.6 PERCENT, OTHER 11.5 PERCENT. IT HAS ALSO BEEN REPORTED THAT IMPORTS TOTALLED 12,549,971 CYPRUS POUNDS. TURKEY ACCOUNTED FOR 64.3 PERCENT OF THE IMPORTS, UK 12.2 PERCENT, FRG 5.6 PERCENT, LEBANON 3.8 PERCENT, OTHERS 14.1 PERCENT. FOREIGN EXCHANGE REMAINS A PROBLEMS FOR "TFSC". UNLIKE LAST YEAR WHEN TURKEY PROVIDED \$10 MILLION IN FOREIGN EXCHANGE, TURK CYPRIOTS OFFICIALS SAY NONE IS NOW BEING PROVIDED. "TFSC" IS THUS HAVING TO COVER FOREIGN EXCHANGE GAP BY INCREASING EXPORTS, DRAWING ON FOREIGN EXCHANGE ACCOUNTS HELD BY TURK CYPRIOTS, ATTRACTING HARD CURRENCY BY OFFERING PREMIUM EXCHANGE RATE FOR CYPRUS POUND (12 PERCENT ABOVE RATE OFFERED IN GREEK SECTOR), AND ALLOWING BUSINESSMEN TO IMPORT NEEDED GOODS AS LONG AS THEY CAN PRODUCE FOREIGN EXCHANGE (IN EFFECT, TURNING BLIND EYE TO BLACK MARKET CURRENCY DEALINGS, SECRET BANK ACCOUNTS, ETC.). AUTHORITIES RECOGNIZE THAT SUCH POLICIES ARE STOP-GAP MEASURES ONLY BUT HOPE THEY

WILL TIDE THE COMMUNITY OVER FOR ONE OR TWO YEARS UNTIL EXPORTS
AND TOURISM CAN BE MORE ADEQUATELY DEVELOPED.

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TO SECSTATE WASHDC 4177

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8. ECONOMIC RELATIONS WITH TURKEY: ECONOMIC LINKS WITH THE GREEK
SECTOR HAVE STEADILY DIMINISHED WHILE THOSE WITH TURKEY HAVE

BEEN CONSOLIDATED. THE ONLY SIGNIFICANT TRADE BETWEEN THE TWO COMMUNITIES CONSISTS OF BOTTLED GAS AND SOME OTHER PETROLEUM LIMITED OFFICIAL USE

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PRODUCTS PURCHASED BY THE TURKS FROM THE SOUTH AND ELECTRICITY WHICH GREEKS SUPPLY TO THE NORTH IN RETURN FOR WATER SUPPLIED TO GREEK NICOSIA BY THE TURKS. HOWEVER, EVEN THIS LINK WHICH HAS PRESERVED A MEASURE OF COOPERATION AND MUTUAL DEPENDENCE BETWEEN THE COMMUNITIES COULD LOSE IMPORTANCE ONCE POWER STATION PROJECTS IN THE NORTH ARE COMPLETED. IN ADDITION, THERE IS A SMALL TRADE IN SPARE PARTS FOR CARS, WATER PUMPS, AND AGRICULTURAL EQUIPMENT. SOME OF THIS TRADE IS GOVERNMENT-APPROVED, SOME OF IT UNDER THE TABLE.

9. TURKISH LINKS ARE NOW CLEARLY THE DOMINANT ONES, HOWEVER. TURKEY IS PROVIDING BUDGETARY ASSISTANCE TOTALLING TL 449 MILLION (\$28 MILLION), ROUGHLY FORTH PERCENT OF THE TFSC BUDGET; THE TURKISH AGRICULTURAL BANK IS PROVIDING CENTRAL BANKSERVICES FOR THE COMMUNITY; THE LIRA IS THE MEDIUM OF EXCHANGE (THOUGH PRICES AND SALARIES ARE STILL LARGELY GIVEN IN CYPRUS POUNDS); TURKEY REPORTEDLY ACCOUNTS FOR 43 PERCENT OF "TFSC"EXPORTS AND 64 PERCENT OF ITS IMPORTS; AN ESTIMATED 10-15,000 TURKISH WORKER-IMMIGRANTS -- SOME TEMPORARY, SOME PERMANENT -- HAVE AUGMENTED A TURK CYPRIOT WORKFORCE SHORT OF SKILLED AND UNSKILLED LABOR; COMMUNICATION AND TRANSPORTATION LINKS WITH THE OUTSIDE WORLD ARE MOSTLY THROUGH THE MAINLAND; TURKISH TECHNICIANS AND ADVISORS WORK CLOSELY WITH TURK CYPRIOTS IN EFFORT TO IDENTIFY BOTTLENECKS AND WAYS OF FACILITATING COMMUNITY'S ECONOMIC DEVELOPMENT. IN SUM, THE WEB OF POLITICAL AND ECONOMIC RELATIONSHIPS PULLING THE NORTH INTO TURKEY'S ECONOMIC ORBIT IS SO EXTENSIVE AND COMPLEX THAT THE PROCESS HAS PROBABLY BECOME IRREVERISBLE. DILLERY

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